

## Message Text

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ACTION SS-25

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R 091604Z JUL 76

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC 5134

C O N F I D E N T I A L SECTION 1 OF 2 CAIRO 9361

EXDIS

EO 11652: GDS

TAGS: EFIN EG

SUBJECT: EGYPT'S DEBT BURDEN - SOME PESSIMISTIC CONSIDERATIONS

REF: 75 CAIRO 11850

1. MUCH HAS BEEN WRITTEN ON EGYPT'S SERIOUS DEBT SERVICE PROBLEM, INCLUDING VARIOUS REPORTS BY THIS EMBASSY (FOR EXAMPLE, SEE REFTEL). INASMUCH AS THIS QUESTION PROMISES TO AFFECT FOR GOOD OR ILL THE NATION'S INTERNATIONAL REPUTATION (EXCEPT IN A STRICTLY POLITICAL SENSE) MORE THAN ANY OTHER FACTOR OVER THE NEAR TERM, IT WOULD BE WELL TO FOCUS ON THE MAGNITUDE OF THE PROBLEM AS OF MID-1976. THE FIGURES USED BELOW ARE DRAWN FROM UNPUBLISHED IMF DATA (PROTEC) DERIVED FROM GOE MINECON AND CENTRAL BANK SOURCES.

2. AT THE BEGINNING OF 1976, EGYPT WAS SCHEDULED TO REPAY A TOTAL OF AT LEAST LE 840 MILLION EQUIVALENT (\$2,142 MILLION AT THE OFFICIAL RATE) IN NON-MILITARY FOREIGN DEBTS OVER THE FOLLOWING 12 MONTHS -LE 787 MILLION IN CONVERTIBLE AND LE 53 MILLION IN CLEARING CURRENCIES. EVEN THESE IMPRESSIVE TOTALS ARE INCOMPLETE IN THAT, ASIDE FROM MISSING INFORMATION ON THE MILITARY DEBT SERVICE SCHEDULE, A NUMBER OF OTHER CAPITAL LIABILITIES, PRESUMABLY DIFFICULT OF IDENTIFICATION, AND CERTAIN INTEREST OBLIGATIONS ARE  
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UNAVAILABLE FOR INCLUSION IN THE IMF DATA.

3. THIS REPAYMENT TOTAL FOR CALENDAR 1976 ALONE, AMOUNTING TO MORE THAN LE 22 FOR EACH EGYPTIAN MAN, WOMAN AND CHILD, REFLECTS LARGELY BANK CREDIT FACILITIES (SHORT-TERM DEBTS) AND OFFICIAL DEPOSITS, BOTH DENOMINATED IN CONVERTIBLE CURRENCIES. SOME THREE-FOURTHS (LE 627 MILLION) OF THE 1976 SCHEDULE OF PAYMENTS IS FOUND IN THOSE TWO CATEGORIES, WITH CONVERTIBLE CURRENCY SUPPLIERS' CREDITS (LE 83 MILLION) AND CONVERTIBLE AND CLEARING CURRENCY OFFICIAL LOANS COMBINED (LE 80 MILLION) OTHER MAJOR PAYMENT ITEMS.

4. THE PAYMENTS SCHEDULE AS CONSTITUTED AT THE BEGINNING OF 1976 SEEMS TO INDICATE A LESSENING BURDEN OVER THE NEXT FEW YEARS, WITH THE ANNUAL TOTALS FALLING FROM LE 350 MILLION EQUIVALENT IN 1977- LESS THAN ONE-HALF OF THE 1976 LOAD- TO A MERE LE 124 MILLION IN 1980. THE CRUCIAL IMPORTANCE OF SHORT-TERM DEBT (PAYMENTS TOTALLING LE 364 MILLION SCHEDULED IN 1976), HOWEVER, MILITATES AGAINST AN ACTUAL IMPROVEMENT ON THAT ORDER: EGYPT'S SHORT-TERM OBLIGATIONS ARE NOT LIKELY TO GO AWAY, I.E., BE PAID OFF, BUT RATHER THEY WILL HAVE TO BE ROLLED OVER AND ASSUMED ONCE AGAIN. THE GOE'S HOPE, OF COURSE, IS THAT, AT A MAXIMUM, A LARGE PART CAN BE CONVERTED INTO MEDIUM-TERM COMMERCIAL DEBT THROUGH A CONSORTIUM ARRANGEMENT WITH APPROPRIATE GUARANTEES. AT A MINIMUM, GOE OFFICIALS HAVE EXPRESSED THE INTENTION TO EFFECT A NET REDUCATION IN THE AMOUNT CARRIED ON THE BOOKS AT YEAR'S END. THE TOTAL DEBT BURDEN FOR 1977 NONETHELESS ALMOST CERTAINLY WILL SHOW A RISE, AS A RESULT SOLELY OF FRESH SHORT-TERM OBLIGATIONS, TO APPROXIMATELY TWICE ITS CURRENTLY-LISTED SIZE (LE 350 MILLION) WHEN RECALCULATED LATER THIS YEAR. THERE IS THUS NO LARGE SCALE RELIEF AUTOMATICALLY COMING INTO SIGHT AS FAR AS THE BANK CREDIT FACILITIES PORTION OF THE 1976 DEBT REPAYMENT BURDEN IS CONCERNED.

5. OFFICIAL DEPOSITS (LE 263 MILLION DUE IN 1976)  
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PRESENT A SIMILAR PICTURE IN TERMS OF DEBT RELIEF NEXT YEAR. THESE ACCOUNTS WE UNDERSTAND ARE PRIMARILY SHORT-TERM CAPITAL TRANSFERS BY SAUDI ARABIA AND THE GULF STATES IN 1975. A VITAL DIFFERENCE, HOWEVER, IS THE WIDELY-REPORTED BELIEF THAT THE DONOR NATIONS DO NOT REALLY EXPECT REPAYMENT. THESE INTEREST-BEARING ACCOUNTS TECHNICALLY COME DUE DURING THE COURSE OF THIS YEAR, BUT IT SEEMS MOST PROBABLE THAT IF REPORTS

ON HOW THEY ARE VIEWED BY THE ARAB DONORS, AND HENCE ALSO UNDOUBTEDLY BY THE RECIPIENT, ARE CORRECT, THIS OBLIGATION ALSO WILL BE CARRIED OVER TO 1977, WITH POSSIBLY ONLY INTEREST DUE BEING PAID. A COMPARABLE TOTAL, SWOLLEN BY 1976 ARAB TRANSFERS ACTUALLY MADE OTHER THAN OUTRIGHT GRANTS, I.E., UP TO \$750 MILLION), CAN BE EXPECTED TO SHOW UP ON THE BOOKS LATER AS A 1977 DEBT.

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C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 9361

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6. OTHER SEGMENTS OF EGYPT'S 1976 (AND ONWARD) DEBT SERVICE BURDEN IN CONTRAST ARE RELATIVELY MANAGEABLE, ALTHOUGH NOT INSUBSTANTIAL. SUPPLIERS' CREDITS DUE IN 1976 TOTAL LE 83 MILLION AND LE 13 MILLION IN CONVERTIBLE AND CLEARING CURRENCIES, RESPECTIVELY. OFFICIAL LOAN OBLIGATIONS ACCOUNT FOR LE 39 MILLION IN CONVERTIBLE AND LE 40 MILLION IN CLEARING CURRENCIES. ONLY AUSTRALIA AND THE USSR EVIDENTLY ARE DUE SIGNIFICANTLY LARGE SUMS: LE 35 MILLION IN SUPPLIERS' CREDITS TO THE FORMER AND ROUGHLY THE SAME TOTAL TO THE SOVIETS FOR VARIOUS TYPES OF NON-MILITARY CREDITS. (THE U.S. IS SCHEDULED IN 1976 TO BE PAID LE 10 MILLION ON OFFICIAL LOANS AND LE 4.5 MILLION IN SUPPLIERS' CREDITS.) RESCHEDULING AGREEMENT AND EURO-CURRENCY LOAN PAYMENTS COMBINED AMOUNT TO ANOTHER LE 38 MILLION IN 1976.

7. THESE LATTER TOTALS, WHILE OF CONSEQUENCE IN FINANCIAL MANAGEMENT, ARE A MERE BAGATELLE IN COMPARISON WITH THE SHORT-TERM DEBTS COMING DUE. EGYPT

HAS BEEN LIVING OFF SHORT-TERM CREDIT FOR TWO YEARS OR MORE AND SHOWS LITTLE SIGN OF BEING WILLING OR INDEED ABLE TO CHANGE ITS WAYS, GIVEN THE CURRENT MIX OF CONSUMPTION PATTERNS, EARNING CAPACITY, PUBLIC SPENDING, INVESTMENT PLANS AND FISCAL STRUCTURE. THE KEY TO THE DEBT BURDEN PROBLEM, WHICH ITSELF IS SYMPTOMATIC OF PERVASIVE DISLOCATIONS IN THE NATIONAL ECONOMY, IS THE AMOUNT PERFORCE SERVICED ANNUALLY ON  
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A SHORT-TERM BASIS ASSUMING CONTINUED FOREBEARANCE BY ITS WEALTHY ARAB BENEFACTORS, AND GIVEN THE COMPARATIVELY REASONABLE BURDEN OF ITS LONGER-TERM OBLIGATIONS, WHICH IN ANY EVENT ARE IN PRINCIPLE SUSCEPTIBLE TO RESCHEDULING IN CASE OF DIRE NEED, EGYPT STILL IS FACED WITH THE GROWING NECESSITY TO RATIONALIZE ITS LOPSIDED SHORT-TERM PAYMENTS BURDEN. REFINANCING THESE DEBTS-CONVERTING THEM INTO MEDIUM-TERM OBLIGATIONS-APPEARS TO BE A NECESSARY, IF NOT SUFFICIENT CONDITION TO PUTTING EGYPT'S FINANCES INTO ORDER. THE GOE SHOULD BE BENDING EVERY EFFORT TO ADDRESS THIS ABOVE VIRTUALLY ALL OTHER ECONOMIC QUESTIONS.

8. THE POINT OF THIS MESSAGE IS PERHAPS SELF-EVIDENT. EGYPT SEEMS TO US TO BE HEADED FOR MAJOR EMBARRASSMENT ON THE WORLD SCENE, PROBABLY BY THE FALL OF THIS YEAR. DESPITE ITS DEMONSTRATED, AND IN SOME WAYS ALMOST ADMIRABLE ABILITY TO CARRY OUT LAST-MINUTE TARKETONIAN SCRAMBLING MANEUVERS IN THE FINANCIAL FIELD, THE TOTALITY OF THE DEBT SERVICE PROBLEM THIS YEAR LIKELY WILL PROVE TOO MUCH FOR THE GOE. ITS RESPONSE TO THE CHALLENGE OF SERIOUSLY SEEKING REFINANCING POSSIBILITIES CERTAINLY IS NOT REASSURING, NOT TO SPEAK OF THE GOVERNMENT'S WILLINGNESS TO EXPLORE MORE BASIC SOLUTIONS TO THE ECOMY'S NUMEROUS PROBLEMS.

9. EGYPT'S TREASURY IS, FOR ALL PRACTICAL PURPOSES IN LIGHT OF DEBTS COMING DUE, EMPTY. IF AND WHEN THE CURRENT SITUATION OF WIDESPREAD ARREARS COME TO BE DEFINED BY THE BANKERS HOLDING THE NOTES AS ONE OF DEFAULT, THEN THE FINANCIAL CREDIBILITY OF THIS EGYPTIAN ADMINISTRATION WILL BE SERIOUSLY IMPAIRED, IF NOT DESTROYED. WE BELIEVE THAT TIME TO BE DRAWING NIGH.  
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